



# THE STATE OF FLORIDA

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**The plans:**

Florida has only one state-administered pension system and many locally-administered systems. The state also maintains one retiree health plan. This analysis focuses primarily on the state-administered system – the Florida Retirement System (RS)– which makes up just over 85 percent of public plan active membership in the state.

**The impact of the crisis:**

As a result of the economic crisis, the amount required to amortize the unfunded liabilities increased from 0 percent to 4 percent of payroll for RS. Nevertheless, the system remained a responsible funder over the crisis period, continuing to fund 100 percent of the annual required contribution (ARC). For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 3.0 percent to 4.5 percent.

**The impact of pension plan reforms:**

In the wake of the crisis, RS cut benefits for current employees and new hires. Cuts limited to only new hires included tightening retirement eligibility requirements and lengthening the averaging period used for calculating benefits. However, the cut that had the largest impact was the removal of cost-of-living adjustments on future benefit accruals for current employees and new hires. The RS also increased the employee contribution rate for all employees from 0 to 3 percent of payroll. All of these changes combined reduce the projected employer's contribution to the normal cost from 12 percent of payroll today to 5 percent by 2046, at which point all active employees will be covered under the new benefit structure.

Going forward, if the system continues to pay the full ARC – as it has historically done – and assumed returns materialize, the payments required to amortize the unfunded liability will decline. Taking into account both the benefit changes and paying down the unfunded liability, the share of state and local budgets devoted to pensions is projected to drop from 4.5 percent today to 2.5 percent by 2046. Overall, pension reforms were more than commensurate with the challenges caused by the crisis and are expected to bring total pension costs well below pre-crisis levels by 2046.

**Total state costs:**

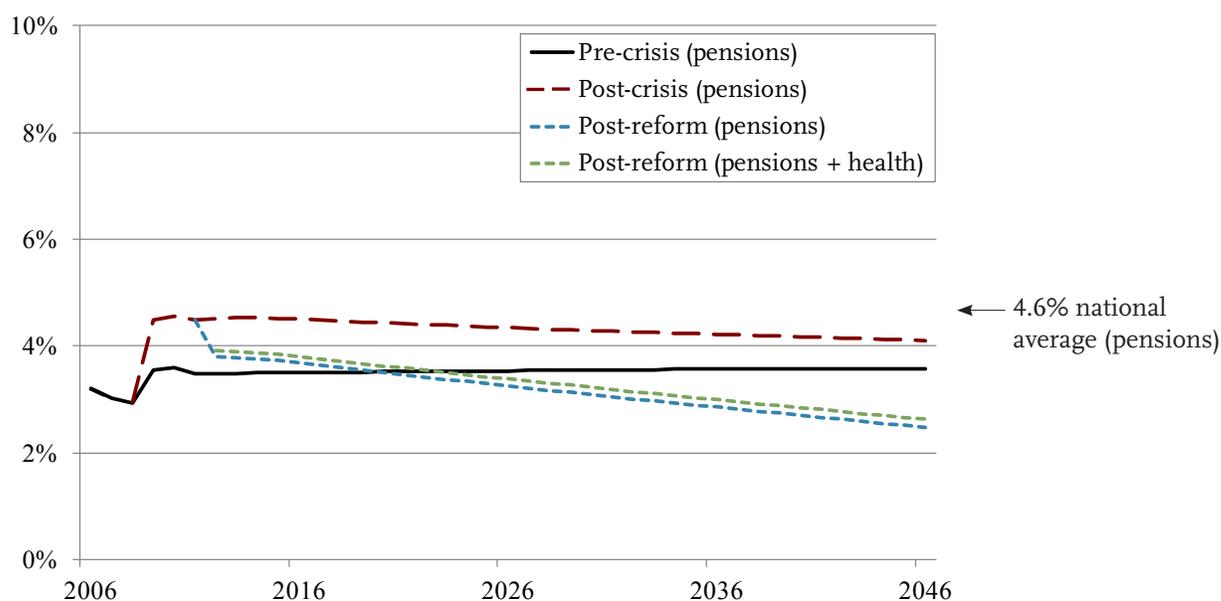
Florida state government also provides retiree health benefits, which amounted to 0.1 percent of state and local budgets prior to the crisis and are projected to grow to 0.2 percent by 2046. When retiree health and pension costs are combined, Florida's total retirement benefit costs as a percent of state and local budgets equaled 3.1 percent prior to the crisis, increased to 4.6 percent during the crisis, and are projected to drop to 2.7 percent in 2046 after pension reforms.



# PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

## FLORIDA: TOTAL PENSION AND RETIREE HEALTH COSTS

FIGURE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



Note: Budget = general own source revenues of all Florida state/local governments. Retiree health costs assumed pay-as-you-go.

TABLE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET, BY PLAN

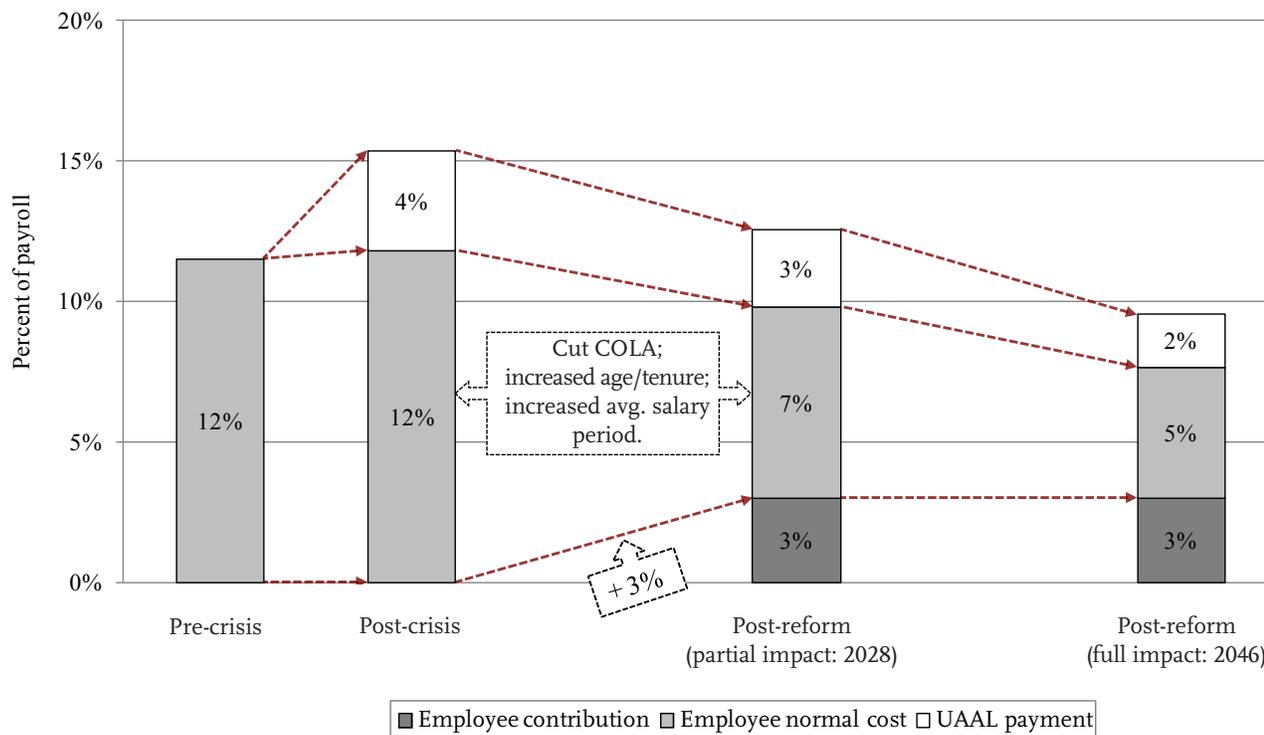
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	3.0 %	4.5 %	3.2 %	2.5 %
Florida RS	2.6	3.5	2.2	1.5
Other pension plans <sup>a</sup>	0.5	1.0	1.0	1.0
Total retiree health	0.1	0.1	0.1	0.2
Florida state retiree health	0.1	0.1	0.1	0.2
Total	3.1	4.6	3.3	2.7

<sup>a</sup> Includes all the locally-administered plans within Florida.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems*.

## FLORIDA RETIREMENT SYSTEM (RS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



### KEY FACTS

#### Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

#### Funding method and history

- Set by statute
- Actuarially determined

Pre-crisis, averaged 100 percent of GASB-required ARC. Post-crisis, the rate dropped to 83 percent in 2011.

#### Plan design changes

- Cut COLA: all employees
- Increased employee contribution: all employees
- Increased age/tenure eligibility: new hires only
- Increased average salary period: new hires only
- Reduced benefit factor
- None

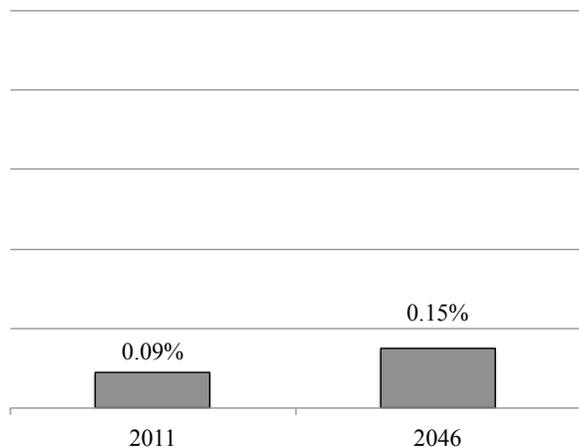
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	105.6 %	86.6 %	-	-
Employer ARC rate	10.7	15.0	9.5	6.5
Percent of ARC paid	111.0	111.0	100	100
<b>Assumptions</b>				
Discount rate	7.75	7.75	7.75	7.75
Payroll growth	4.0	4.0	4.0	4.0
Amortization period	30 yrs.	30 yrs.	30 yrs.	30 yrs.

Sources: Actuarial valuations and CRR calculations.

STATE OF FLORIDA DIVISION OF STATE GROUP INSURANCE

RETIREE HEALTH AS PERCENT OF BUDGET

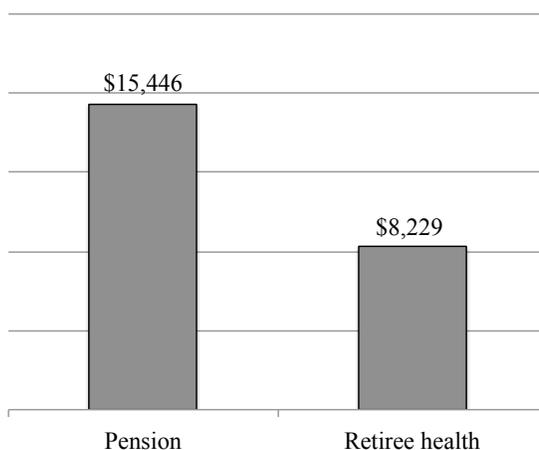


Sources: CRR calculations from plan actuarial valuation; and U.S. Census Bureau, *State and Local Government Finances*.

*Retiree health funding and costs*

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 6.5 percent by 2015, and 5 percent by 2082.
- Employer contribution: The plan requires retirees to pay 100 percent of the premium.

AVERAGE ANNUAL BENEFIT



Source: CRR calculations from plan actuarial valuation.

*Benefits and membership*

- Benefit eligibility: State workers who retire and immediately sign up for pension benefits.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Actives employees: 139,823
- Beneficiaries: 36,215
- Most recent actuarial valuation: 7/1/11